



State of North Carolina

Office of the State Controller

Michael F. Easley, Governor

Robert L. Powell, State Controller

January 28, 2003

MEMORANDUM NO. FSD 030015

TO: Chief Fiscal Officers
University Vice Chancellors

FROM: Zeke Partin, CPA, Assistant State Controller
Office of the State Controller

SUBJECT: Extension of the Recovery of Overpayments Audit for Fiscal Year 2002

As you are aware, the Office of the State Controller (OSC) was mandated by the 1998 General Assembly Session Law 1998-212, Section 26.1. to contract with a third party to perform an "audit and collection process of inadvertent overpayments by State agencies to vendors as the result of pricing errors, neglected rebates and discounts, miscalculated freight charges, unclaimed refunds, erroneously paid excise taxes and related errors." Since March 1999, this audit has been performed by the Profit Recovery Group-Shultz. The PRG-Shultz has recently merged and its company name is now PRG-Schultz USA, Incorporated. The first and second phase of this audit, which included fiscal years 1996, 1997, 1998 and 1999, has been completed. The current phase, fiscal years 2000 and 2001, is in the collection stage at this time. The net recovery since the inception of the audit (after payment of collection fees to the PRG-Schultz) is approximately \$1.4 million.

The OSC has decided to exercise the fourth year of a five year contract renewal option with the PRG-Schultz to continue the audit with a review of the fiscal year 2002 (July 1, 2001 through June 30, 2002). Therefore, agencies and universities are requested to make available their accounts payable invoice documentation for the next audit period in accordance with provisions of this audit. Also, to ensure claims are processed timely and efficiently, the following procedures, which were issued during the previous year, remain in effect for the Recovery of Overpayments Audit:

1. The PRG-Schultz will send statement letters to the appropriate state vendors who have been paid at least \$10,000.00 on ten (10) invoices by a state entity within the audit periods. These letters will be reviewed by PRG-Schultz for outstanding items.
2. The agency will be contacted by the PRG-Schultz to review pending claims found during the audit and insure that no activity has taken place within the last 180 days from the payment date or credit memo date. If contact has been made, the agency must show substantial proof (i.e. a dated correspondence to the vendor on the item in question). This correspondence may be in the form of an e-mail, facsimile, or letter. If no contact has been made, the agency is required to process the claims collection by entering a debit memorandum, credit memorandum or authorizing the request for a refund. It is the PRG-Schultz responsibility to contact the vendor if a refund is applicable.

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Website: www.osc.state.nc.us/OSC/

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LOCATION
3512 Bush Street
Raleigh, NC

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3. The applicable agency will be required to enter the credit into its Accounts Payable system within five (5) days of receipt. This credit is to be recorded to the 211270-Accounts Payable- Recovery liability account. The agency will transfer monies from this liability account to the Special Reserve Fund once the credit has been processed.
4. A refund check must be made payable to the State of North Carolina-Office of the State Controller. These funds will be deposited in the Special Reserve Fund as stated in the legislation for this audit.
5. The OSC will be responsible for following up with agencies that are not processing claims in a timely manner.
6. When claims are presented to the agency which are supported by federal funds, the agency is required to inform the PRG-Schultz of the federal participation rate and whether or not a collection fee is allowed. If the collection fee is not allowed on the federal portion, the PRG-Shultz may participate in the state funded portion of the claim. In order to ensure proper accountability of these type claims, the entire recovery will be recorded in the Recovery of Overpayments special reserve fund. The OSC will transfer any remaining federal portions of claims back to the agency. It will be the agency's responsibility to distribute the federal recovery back to the grantor agency.
7. The OSC is also exempting from the audit any recoveries from university institutional trust funds. These funds can not be subject to the recovery of overpayments audit established by the current statute because of the restrictive nature of these funds.

Your assistance and cooperation with this audit is greatly appreciated. For questions regarding this audit or the outlined procedures, please contact Barbara Lawrence at (919) 981-5412 or blawrenc@mail.osc.state.nc.us.

ZKP/bl